

Bonneville Power Administration

Overview

Summary by Program

(accrued expenditures in thousands of dollars)

	FY 2004	FY 2005	FY 2006
CAPITAL INVESTMENTS			
Power Business Line	136,806	199,658	184,400
Transmission Business Line	273,815	198,260	266,579
Capital Equipment & Bond Premium	28,081	35,022	36,491
Total Capital Investments	438,702	432,940	487,470
Accrued expenditures will require budget obligations of ..	438,702	432,940	487,470
Operating Expenses	2,642,075	2,946,770	2,976,655
Projects Funded in Advance	41,317	153,791	147,359
CAPITAL TRANSFERS (cash)	598,462	303,098	371,560
BPA NET OUTLAYS	-61,000	-10,000	-10,000
BPA STAFFING (FTE)	3,136	3,166	3,166

Summary by Program Notes:

These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest.

Net Outlay estimates are based on forecasted market conditions, current cost savings to date, and anticipated use of rate adjustment and financial management tools. Net Outlays will change throughout the rate period as BPA experiences actual market and hydro conditions and responds with management actions.

Revenues, included in the Net Outlay formulation, are calculated consistent with rate period management goals and assume a number of rate, cost and cash adjustments. Assumed adjustments include the use of a combination of tools that include Cost Recovery Adjustment Clause (CRAC) adjustments, cost re-estimates, net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash. Adjustments for depreciation and 4(h)(10)(C) credits are also assumed.

Preface

The strategic mission of Bonneville Power Administration (Bonneville or BPA) is to create and deliver the best value for its customers and constituents as it acts in concert with others to assure the Pacific Northwest:

- An adequate, efficient, economical and reliable power supply;
- A transmission system that provides open and non-discriminatory transmission access, that is adequate to the task of integrating and transmitting power from federal and non-federal generating units, providing service to BPA's customers, providing interregional interconnections, and maintaining electrical

- reliability and stability; and
- Mitigation of the Federal Columbia River Power System (FCRPS) impacts on fish and wildlife.

BPA is committed to cost-based rates, open and non-discriminatory transmission access, and public and regional preference in its marketing of power. BPA will set its rates as low as possible consistent with sound business principles and the full recovery of all of its costs, including timely repayment of the Federal investment in the system.

The organization of BPA's FY 2006 budget reflects Bonneville's business line basis for utility enterprise activities. Bonneville's two major areas of activity on a consolidated budget and accounting basis include Power and Transmission with administrative costs included. The Power Business Line (PBL) includes line items for Fish and Wildlife, Conservation and Energy Efficiency, Residential Exchange, Associated Projects O&M Costs, and Northwest Power and Conservation Council (Planning Council, Council).

This Overview describes Strategic Context, Mission, Benefits, Strategic Goals, and Funding by General Goal. The Annual Performance Results and Targets, Means and Strategies, and Validation and Verification sections address how the goals will be achieved and how performance will be measured. Finally, this Overview will address Program Assessment Rating Tool (PART) and Significant Program Shifts.

Strategic Context

Following publication of the Administration's National Energy Policy, the Department of Energy (Department or DOE) developed a Strategic Plan that defines its mission, four strategic goals for accomplishing that mission, and seven general goals to support the strategic goals. Each program has developed quantifiable goals to support the general goals. Thus, the "goal cascade" is the following:

Department Mission – Strategic Goal (25 yrs) – General Goal (10-15 yrs) – Program Goal (GPRA Unit) (10-15 yrs)

To provide a concrete link between budget, performance, and reporting, the Department developed a "GPRA unit" concept. Within DOE, a GPRA unit defines a major activity or group of activities that support the core mission and aligns resources with specific goals. Each GPRA unit has completed or will complete a PART. A unique program goal was developed for each GPRA unit. A numbering scheme has been established for tracking performance and reporting.

The goal cascade accomplishes two things. First, it ties major activities for each program to successive goals and, ultimately, to DOE's mission. This helps ensure the Department focuses its resources on fulfilling its mission. Second, the cascade allows DOE to track progress against quantifiable goals and to tie resources to each goal at any level in the cascade. Thus, the cascade facilitates the integration of budget and performance information in support of the GPRA and the President's Management Agenda (PMA).

Mission

The strategic mission of Bonneville is to create and deliver the best value for its customers and constituents as it acts in concert with others to assure the Pacific Northwest:

- An adequate, efficient, economical and reliable power supply;
- A transmission system that is adequate to the task of integrating and transmitting power from federal and non-federal generating units, providing service to BPA's customers, providing interregional interconnections, and maintaining electrical reliability and stability; and
- Mitigation of the FCRPS impacts on fish and wildlife.

BPA is committed to cost-based rates, open and non-discriminatory transmission access, and public and regional preference in its marketing of power. BPA will set its rates as low as possible consistent with sound business principles and the full recovery of all of its costs, including timely repayment of the Federal investment in the system.

Benefits

Bonneville provides electric power (about 40 percent of the electricity consumed in the region), transmission (about three-fourths of the region's high voltage transmission capacity), and energy efficiency throughout the Pacific Northwest, a 300,000 square mile service area. Bonneville markets the electric power produced from 31 operating Federal hydro projects in the Pacific Northwest owned by the U.S. Corps of Engineers (Corps) and the U.S. Department of Interior, Bureau of Reclamation (Bureau), and also acquires non-Federal power, including the power from the Columbia Generating Station, to meet the needs of its customer utilities. Bonneville also supports the protection and enhancement of fish and wildlife, and provides leadership in conservation and renewables development, as part of its efforts to preserve and balance the economic and environmental benefits of the FCRPS.

Strategic, General, and Program Goals

The Department's Strategic Plan identifies four strategic goals (one each for defense, energy, science, and environmental aspects of the mission plus seven general goals that tie to the strategic goals). The Bonneville program supports the following goal:

Energy Strategic Goal: To protect our national and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.

General Goal 4, Energy Security: Improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.

Bonneville's Program Goal contributes to the General Goals in the "goal cascade." This goal is Market and Deliver Federal Power:

Program Goal 04.54.00.00 Market and Deliver Federal Power: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting planned repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

Contribution to General Goal 4:

Bonneville contributes to this goal through its strategic vision that emphasizes the basic core values of reliability, low rates consistent with sound business principles, environmental stewardship, and accountability to the region. BPA has renewed its emphasis on performance and has adopted 24 agencywide objectives that are key to achieving its mission. These objectives, aligned using the balanced scorecard model, are focused on stakeholder value, financial performance, internal operations, and people and culture.

Funding by General and Program Goal

(Accrued Expenditures)

(dollars in thousands)

	FY 2004	FY 2005	FY 2006	\$ Change	% Change
General Goal 4, Energy Security					
Program Goal 04.54.00.00					
Bonneville Power Administration					
CAPITAL INVESTMENTS					
Power Business Line	136,806	199,658	184,400	-15,258	-7.6%
Transmission Business Line	273,815	198,260	266,579	+68,319	+34.5%
Capital Equipment & Bond Premium	28,081	35,022	36,491	+1,469	+4.2%
Total Capital Investments	438,702	432,940	487,470	+54,530	+12.6%
Accrued expenditures will require budget obligations of	438,702	432,940	487,470	+54,530	+12.6%
Operating Expenses	2,642,075	2,946,770	2,976,655	+29,885	+1.0%
Projects Funded in Advance	41,317	153,791	147,359	-6,432	-4.2%
CAPITAL TRANSFERS (cash)	598,462	303,098	371,560	+68,462	+22.6%
Net Outlays	-61,000	-10,000	-10,000	0	+0.0%
BPA Staffing (FTE)	3,136	3,166	3,166	0	0.0%

Funding by General and Program Goal Notes:

These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest.

Net Outlay estimates are based on forecasted market conditions, current cost savings to date, and anticipated use of rate adjustment and financial management tools. Net Outlays will change throughout the rate period as BPA experiences actual market and hydro conditions and responds with management actions.

Revenues, included in the Net Outlay formulation, are calculated consistent with rate period management goals and assume a number of rate, cost and cash adjustments. Assumed adjustments include the use of a combination of tools that include CRAC adjustments, cost re-estimates, net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash. Adjustments for depreciation and 4(h)(10)(C) credits are also assumed.

Major FY 2004 Achievements

BPA passed a major milestone of its infrastructure program in December 2003, when it energized the Kangley-Echo Lake 500-kilovolt transmission line, the first major new high voltage line in the Northwest since 1987. BPA also completed the Grand Coulee-Bell 500-kilovolt transmission line, which will increase capacity in the East to West corridor from 2,800 megawatts to 4,200 megawatts.

The Celilo modernization project, completed in April 2004, will maintain with greater reliability the transmission line capacity of the 846-mile Pacific Direct-Current (DC) Intertie running from Los Angeles, California, to the northern Oregon border. BPA and the Los Angeles Department of Water and Power began work in 2001 to modernize the converter stations at both ends of the Intertie to maintain the DC line's reliability and capacity. The modernization will maintain the 3,100-megawatt capacity of the line for another 30 years. Without the upgrade, DC capacity would be 1,100 megawatts.

Cost management was a focus throughout BPA in 2004 and continues as a focus in future planning. BPA captured \$70 million in power program-related cost reductions in FY 2004 over what was expected when rates were set in August 2003. On the transmission side, BPA cut operating costs by more than \$65 million in FY 2004, largely offsetting a reduction in revenue estimates from the rate case.

Annual Performance Results and Targets

Bonneville Power Administration

FY 2001 Results	FY 2002 Results	FY 2003 Results	FY 2004 Results	FY 2005 Targets	FY 2006 Targets
Transmission System Reliability Performance: Met Goal Actual: CPS1: 173.1% CPS2: 98.7%	Transmission System Reliability Performance: Met Goal Actual: CPS1: 197.5% CPS2: 96.8%	Transmission System Reliability Performance: Met Goal Actual: CPS1: 198.0% CPS2: 93.6%	Transmission System Reliability Performance: Met Goal Actual: CPS1: 198.5% CPS2: 94.3%	Transmission System Reliability Performance: Attain average NERC compliance ratings for the following NERC CPS measuring the balance between power generation and load, including support for system frequency: (1) CPS1, which measures generation/load balance on one-minute intervals (rating >=100); and (2) PCS2, which limits any imbalance magnitude to acceptable levels (rating >=90). Actual: CPS1: CPS2:	Achieve results in the top half of benchmarked utilities for reliability performance targets defined through a customer process in 2004-2005.
Repayment of Federal Power Investment: Met Goal (\$139 million) Actual: \$237 million	Repayment of Federal Power Investment: Met Goal (\$239 million) Actual: \$505 million	Repayment of Federal Power Investment: Met Goal (\$216 million) Actual: \$544 million	Repayment of Federal Power Investment: Met Goal (\$246 million) Actual: \$592 million	Repayment of Federal Power Investment: Meet planned annual repayment of principal on Federal power investments. Actual:	Repayment of Federal Power Investment: Meet planned annual repayment of principal on Federal power investments. Actual:
				Hydropower Generation Efficiency Performance: <i>Achieve 97% Heavy-Load-Hour Availability (HLHA) through efficient performance of Federal hydro-system processes and assets, including joint efforts of BPA, Army Corps of Engineers, and Bureau of Reclamation. HLHA is actual machine capacity available during heavy-load hours (0700-2200 Monday-Saturday), divided by planned available capacity during heavy-load hours.</i> Goal: 97% Actual:	Hydropower Generation Efficiency Performance: <i>Achieve 97% Heavy-Load-Hour Availability (HLHA) through efficient performance of Federal hydro-system processes and assets, including joint efforts of BPA, Army Corps of Engineers, and Bureau of Reclamation. HLHA is actual machine capacity available during heavy-load hours (0700-2200 Monday-Saturday), divided by planned available capacity during heavy-load hours.</i> Goal: Actual:

Recordable Injury Frequency Rate: Met Goal Actual: 2.0 injuries	Recordable Injury Frequency Rate: Met Goal Actual: 1.7 injuries	Recordable Injury Frequency Rate: Met Goal Actual: 2.6 injuries	Recordable Injury Frequency Rate: Met Goal Actual: 2.3 injuries.	Recordable Injury Frequency Rate: Achieve a safety performance of no more than 3.3 recordable accident frequency rate for recordable injuries per 200,000 hours worked or the Bureau of Labor and Statistics' industry rate, whichever is lower. Actual:	Recordable Injury Frequency Rate: Achieve a safety performance of no more than 3.3 recordable accident frequency rate for recordable injuries per 200,000 hours worked or the Bureau of Labor and Statistics' industry rate, whichever is lower. Actual:
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Notes:

The performance indicators above have been modified in consideration of the BPA section of the 2004 DOE Program Plan. BPA is continuing to assess target measures that achieve the best alignment with its strategic objectives.

The Hydropower Generation Efficiency Performance Target is included in this FY 2006 budget as a performance measure starting in FY 2005. Historical data for this measure includes FY 2001 Goal 97%, Actual 97%; FY 2002 Goal 100%, Actual 98%; FY 2003 Goal 97%, Actual 97%; FY 2004 Goal 97%, Actual 100%.

Transmission System Reliability Performance Indicator 1 (FY 2006)

This indicator is based on the Institute of Electrical and Electronics Engineers (IEEE) standard measures of outage frequency (SAIFI) and duration (SAIDI). Control chart techniques, closely mirroring the transmission reliability methodology adopted by the California Independent System Operator, are used to establish allowable performance levels. SAIFI and SAIDI for transmission circuits, as categorized by Circuit Importance, are the adopted performance measures. Control Limits and Warning Limits are calculated based on historical circuit performance for the 10-year period FYs 1994-2003. BPA's Security Office will indicate in writing if a security breach relating to the transmission system was the cause of any involuntary curtailment of firm load or if there were no such cases. BPA is continuing to assess other potential transmission targets that achieve better alignment with strategic objectives.

Transmission performance target in 2004 and 2005 – Outage frequency and duration for key transmission circuits are within control chart limits and no involuntary curtailments of firm load occur as a result of transmission system security breach. This target was met in FY 2004.

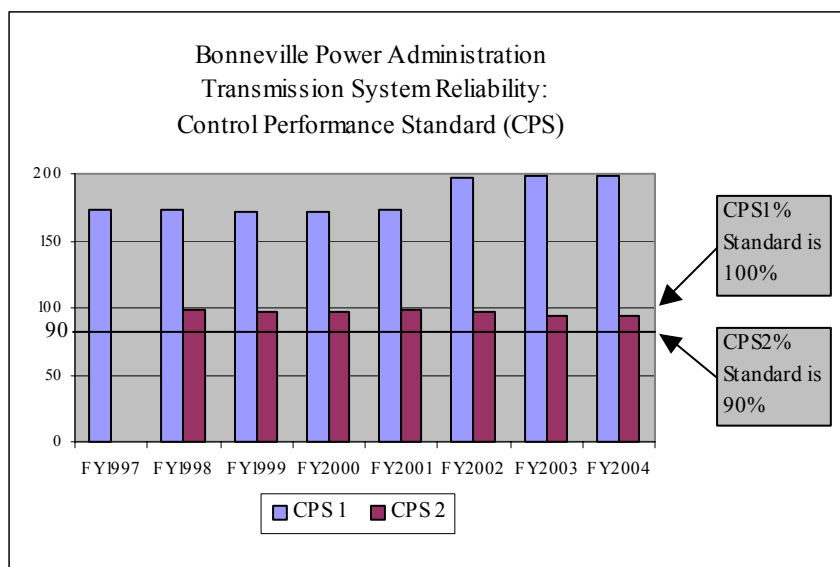
Transmission performance target, post-2005 – BPA will be in the top half of benchmarked utilities for reliability performance targets defined through a customer process in 2004-2005.

Transmission System Reliability Performance Indicator 2 (FYs 2001-2005)

This indicator defines a standard of minimum monthly control performance as established by the North American Electric Reliability Council (NERC). Each control area is to have the best operation above the minimum monthly control compliance ratings that can be achieved within the bounds of reasonable economic and physical limitations. Each control area shall monitor its control performance on a continuous basis against two standards, Control Performance standards (CPS) 1 and 2.

CPS1 and CPS2 are the performance rating indicators that U.S. and Canadian electric utilities have developed to help assure the reliability of the North American high voltage distribution system for the benefit of the public. These measurers are intended to indicate whether or not electric utility systems are being operated within acceptable operating parameters. CPS1 helps assure generation and load balance and also measures support system frequency. CPS2 helps limit any imbalance magnitude to acceptable levels.

Target in FY 2005: Attain average NERC compliance ratings for the following NERC CPS measuring the balance between power generation and load, including support for system frequency: (1) CPS1, which measures generation/load balance on one-minute intervals (rating ≥ 100); and (2) PCS2, which limits any imbalance magnitude to acceptable levels (rating ≥ 90).



Repayment of Federal Power Investment Performance Indicator

This indicator measures the variance of actual from planned principal payments to the U.S. Treasury (Treasury).

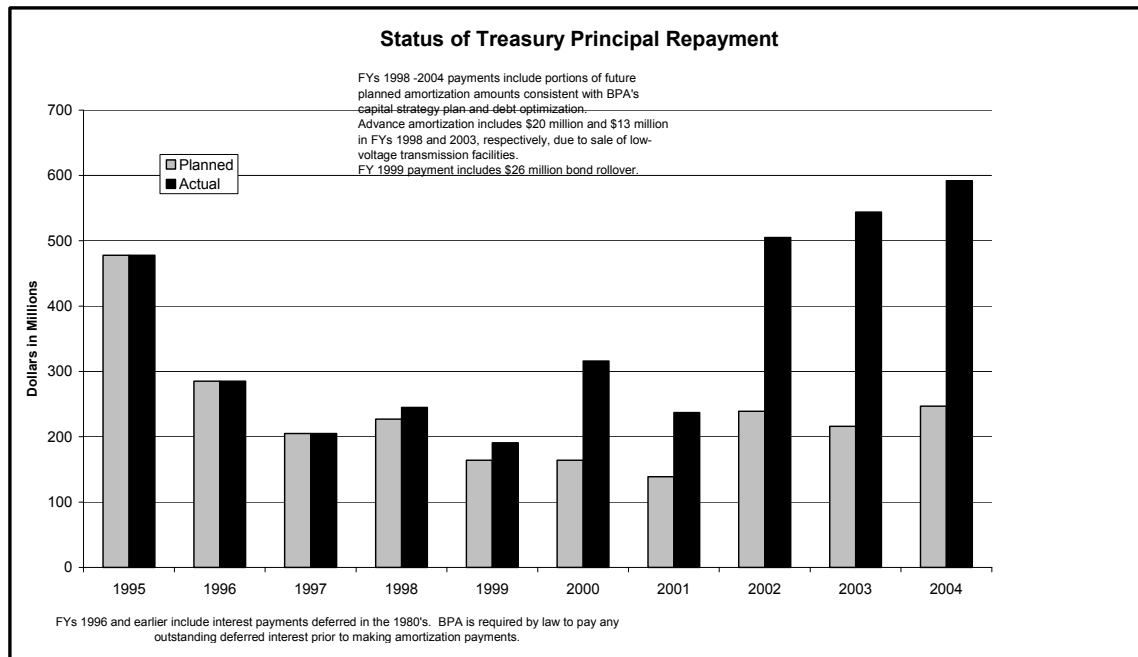
Treasury payment outyear estimates for planned amortization or principal are based on rate case estimates when available and planned amortization for future rate case periods. These estimates may change due to revised capital investment plans, actual Treasury borrowing, and advanced amortization payments. In recent years, BPA has made amortization payments in excess of those scheduled in its FERC-approved rate filings, resulting in a balance of advance repayment. Bonneville made its full planned FY 2004 payment of \$1,049 million to the Treasury, including \$346 million in advanced amortization.

Repayment target, in 2004 – Meet planned repayment of principal on Federal power investments in FY 2004.

Repayment target, in 2007 – Meet planned repayment of principal on Federal power investments in FY 2007.

Repayment target, in 2011 – Meet planned repayment of principal on Federal power investments in FY 2011.

The following chart displays principal repayment only.



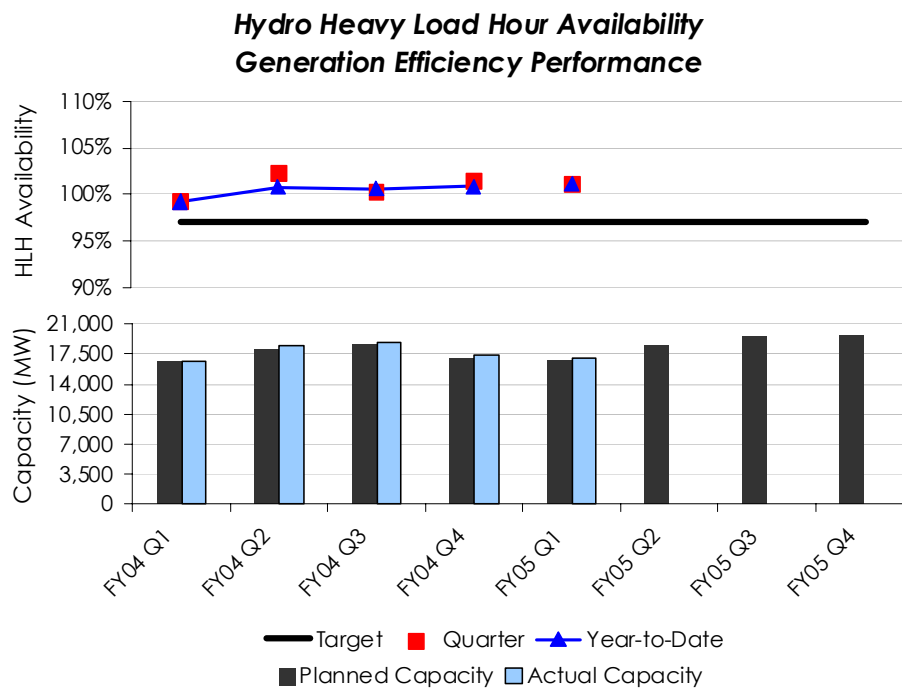
Hydropower Generation Efficiency Performance Indicator

The fundamental programmatic role of Bonneville within the FCRPS is the marketing of electricity generated at the multi-purpose hydro projects in the Pacific Northwest owned and operated by the Corps and the Bureau. This indicator concerns the actual effective performance of the hydro system, reflecting joint work between BPA, the Corps, and the Bureau to improve performance of these generating projects when they are needed most for commercial power operation. It is important from a reliability and economic standpoint to have power generation available when loads are high.

This indicator is based on actual machine capacity available during heavy load hours (HLH), divided by planned available capacity during heavy load hours, expressed in megawatts (MW). Planned capacity is established annually through the Annual Outage planning process, and then updated quarterly based on changes in load and water forecasts. This planned capacity is the basis for the HLH target.

Hydropower Generation Efficiency target: Achieve actual efficiency results at or above planned availability target levels for hydropower generation efficiency.

FY 2005: Achieve 97% Heavy-Load-Hour Availability (HLHA) through efficient performance of Federal hydro-system processes and assets, including joint efforts of BPA, Army Corps of Engineers, and Bureau of Reclamation. HLHA is actual machine capacity available during heavy-load hours (0700-2200 Monday-Saturday), divided by planned available capacity during heavy-load hours.



As represented above, in 2004 the FCRPS hydro performance tracked closely to the HLH targets, meeting the targets in all four quarters.

Recordable Injury Frequency Rate Performance Indicator

This indicator measures the recordable accident frequency rate by first multiplying the number of recordable injuries by 200,000. This number is then divided by the total hours worked. The Power Marketing Administrations measure their performance against a Bureau of Labor and Statistics standard industry case rate.

The national average recordable injury frequency rate is based on standards established by the Bureau of Labor and Statistics. The Bureau of Labor's data is collected from organizations representing the private sector in the generation, transmission, and distribution of electric energy. The Bureau of Labor and Statistics includes a 2003 national average recordable injury frequency rate of 4.1 injuries per 200,000 hours worked. Bonneville's recordable injury frequency rate for FY 2004 was 2.3 injuries. The Bonneville target for FYs 2004 and 2005 is to achieve a safety performance of no more than a 3.3 recordable accident frequency rate for recordable injuries per 200,000 hours worked or the Bureau of Labor and Statistics' industry rate, whichever is lower.

Means and Strategies

Bonneville provides electric power, transmission, and energy services while supporting the achievement of its vital responsibilities for fish and wildlife, energy conservation, renewable resources, and low-cost power in the Pacific Northwest.

To improve system adequacy, reliability and availability, BPA has embarked on major transmission infrastructure projects to shore up the region's transmission system and to help meet the region's future power needs. These projects are meant to address multiple challenges, such as the need to relieve the growing number of congested transmission paths, the pressure to keep up with growing energy demands, and the need to meet FERC's open access policy in support of competitive markets.

BPA's strategic direction and balanced scorecard establish a key objective of meeting electricity availability, adequacy, reliability, and cost-effectiveness standards through performance and expansion of the transmission system. To that end, in 2004 BPA managed nine critical transmission infrastructure projects achieving all project milestones on schedule and coming under budget at \$154 million, \$13 million less than the \$167 million threshold. In 2005, BPA is continuing its efforts with 13 key projects and a not-to-exceed budget of \$108 million. Performance is being monitored continuously and reported monthly. For 2006 BPA's total capital budget includes \$414 million for transmission (main grid additions, upgrades and additions, system replacements, area and customer services, and projects funded in advance), from which a set of critical transmission infrastructure projects will be selected. These investments - repaid entirely by BPA's customers - are foundational to BPA's transmission performance.

As part of these initiatives, Bonneville is also working to improve efficiencies and initiate further cost reductions. Bonneville coordinates its power operational activities with the Corps, the Bureau, the NERC, regional electric reliability councils, its customers, and other stakeholders to provide the most efficient use of Federal assets. Ongoing work with the Corps and Bureau is focused on improving the reliability of the FCRPS, increasing its generation efficiency and optimization of hydro facility operation.

In addition, Bonneville is committed to continue funding its share of the region's efforts to recover listed Columbia Basin fish and wildlife. BPA works closely with the Council, regional fisheries managers, the U.S. Fish and Wildlife Service (USFWS), the Corps and Bureau, as well as other Federal agencies to prioritize and manage fish and wildlife program projects.

Bonneville initiatives are impacted by external factors such as continually changing economic and institutional conditions in the electric utility industry, competitive dynamics, and the continued restructuring of the electric industry.

Private and public sector partners have been and continue to be an important part of BPA's collaborative efforts to promote and foster efficient use of energy. BPA has initiated efforts to explore non-federal financial participation in its transmission infrastructure projects with transmission customers and others in the region. In addition, BPA's Conservation Augmentation and other programs offer several ways for customers to participate in regional conservation.

Validation and Verification

To validate and verify program performance, Bonneville conducts various internal and external reviews and audits. Bonneville's programmatic activities are subject to review by Congress, the General Accountability Office (GAO), the Department's Inspector General, and other

governmental entities. Bonneville accounts are reviewed annually by an independent outside auditor. In addition, BPA uses Institute of Electrical and Electronics Engineers standard measures to monitor and evaluate system reliability performance, and participates yearly in an independent reliability benchmarking study.

Program Assessment Rating Tool (PART)

The DOE implemented a tool to evaluate selected programs. PART was developed by the Office of Management and Budget (OMB) to provide a standardized way to assess the effectiveness of the Federal government's portfolio of programs. The structured framework of the PART provides a means through which programs can assess their activities differently than through traditional reviews.

The current focus is to establish outcome- and output-oriented goals, the successful completion of which will lead to benefits to the public, such as increased national security and energy security, and improved environmental conditions. BPA has incorporated feedback from OMB into the FY 2006 budget submission, and will take the necessary steps to continue to improve performance.

In the 2004 PART review by OMB, Bonneville received high scores of 89 and 100 in the Planning and Management sections. These high scores reflect Bonneville's strong program management system and internal and external program and management reviews. Bonneville's somewhat lower scores in the Purpose and Results sections were attributed in part to its rate setting processes and the need for improved performance measures. Enactment of the BPA rate with the Safety Net Cost Recovery Adjustment is an example of how BPA is working to continuously improve its rates processes and utilize rate setting as a tool to protect the taxpayer's investment in the FCRPS. This rate adjustment helped BPA establish its rates with a Treasury payment probability at a targeted 80 percent for the FY 2004-2006 period. Additionally, BPA's FY 2004 Treasury payment marks the 21st year that BPA has made its payment on time and in full.

Regarding PART feedback on performance measurement, BPA has recently re-examined its overall strategic vision and associated performance measures, enhancing the linkage between its financial performance and strategy. BPA's long-term agency objectives are presented through a strategy map that expresses a direct link of overall agency direction to the objectives and targets of internal organizations. Managers' performance contracts also relate directly to organization and agency targets. In addition, BPA is looking to examine industry benchmarking techniques associated with performance and is continuing to develop associated efficiency measures and targets, both short- and long term.

With respect to the marketing and cost recovery findings, BPA continues to implement recommendations from its internal Lessons Learned Report to the Administrator, as well as a similar BPA Report to the Region that assessed BPA's recent financial challenges and included recommendations in part to assure cost recovery and added efficiencies. Additionally, BPA is improving its management of capital project costs and capital investment assessments while helping to assure long-term availability of needed capital funds.

Significant Program Shifts

This section provides an introduction to Bonneville operations and statutory authorities followed by a description of significant Bonneville program shifts.

Bonneville is the DOE's electric Power Marketing Administration for the FCRPS. Bonneville provides electric power, transmission, and energy efficiency throughout the Pacific Northwest. Created in 1937 to market and transmit the power produced by the Bonneville Dam on the Columbia River, Congress has since directed Bonneville to sell at wholesale the electrical power produced from 31 operating Federal hydro projects and to acquire non-Federal power and conservation resources sufficient to meet the needs of Bonneville's customer utilities. Bonneville also owns and operates over 15,000 miles of high-voltage transmission lines, transmitting power from the dams and regional power on an open-access non-discriminatory basis. Bonneville serves a 300,000 square mile area including Oregon, Washington, Idaho, Western Montana, and parts of Northern California, Nevada, Utah, and Wyoming.

The Bonneville Project Act of 1937 provided the foundation for Bonneville's statutory utility responsibilities and authorities. In 1974, passage of the Federal Columbia River Transmission System Act (Transmission System Act) placed Bonneville under provisions of the Government Corporation Control Act (31 U.S.C. 9101-9110). The Legislation provided Bonneville with "self-financing" authority and established the Bonneville Fund, a revolving fund, allowing Bonneville to use its revenues from electric power and transmission ratepayers to directly fund all programs and to sell bonds to the Treasury to finance the region's high-voltage electric transmission system requirements. In 1980, enactment of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) expanded Bonneville's utility obligations and responsibilities to encourage electric energy conservation; develop renewable energy resources; and protect, mitigate and enhance the fish and wildlife of the Columbia River and its tributaries. In support of these responsibilities, Bonneville's Treasury borrowing authority was expanded to allow the sale of bonds to finance conservation and other resources and to carry out fish and wildlife capital improvements. The Northwest Power Act also required regional energy plans and programs and created the Pacific Northwest Electric Power and Conservation Planning Council, now commonly called the Northwest Power and Conservation Council.

Bonneville's program is treated as mandatory and nondiscretionary. As such, Bonneville is "self-financed" by the ratepayers of the Pacific Northwest and receives no annual appropriations from Congress. Under the Transmission System Act, Bonneville funds the expense portion of its budget and repays the Federal investment with revenues from electric power and transmission rates. Bonneville's revenues fluctuate primarily in response to market prices for fuels and stream flow variations in the Columbia River System due to weather conditions and fish recovery needs. Bonneville's permanent, indefinite statutory borrowing authority authorizes the agency to sell bonds to the Treasury up to a cumulative outstanding total of \$4.45 billion. Through FY 2004, Bonneville has returned approximately \$20.5 billion to the Treasury for payment of FCRPS O&M and other costs (about \$2.9 billion), interest (about \$11.0 billion), and amortization (about \$7.0 billion) of appropriations and bonds. Bonneville made its full planned FY 2004 payment of \$1,049 million to the Treasury, including \$346 million in advanced amortization. Total FY 2004 credits applied for fish mitigation were about \$83 million. For FY 2005, Bonneville plans to pay the Treasury \$775

million: \$303 million to repay investment principal, \$445 million for interest, \$27 million for Pension and Post-retirement Benefits. FY 2005 and FY 2006 4(h)(10)(C) credits are estimated at \$79 million annually. The FY 2006 Treasury payment is currently estimated at \$848 million.

Estimates of interest levels for outyear Treasury payments are based on rate case estimates as updated for revised capital investment plans. Amortization is based on rate case estimates when available and planned amortization for future rate case periods. These estimates may change due to revised capital investment plans, actual Treasury borrowing, and advanced amortization payments. In recent years, BPA has made amortization payments in excess of those scheduled in its FERC-approved rate filings resulting in a balance of advance repayment. The cumulative amount of advance amortization payments as of the end of FY 2004 is about \$1,146 million.

Starting in FY 1997, Bonneville began direct funding the Bureau's Pacific Northwest power O&M costs and in FY 1999 began direct funding Corps Pacific Northwest power O&M costs. Bonneville began direct funding the USFWS in FY 2001 to pay for O&M costs of the Lower Snake River Compensation Plan facilities. Bonneville's direct funding arrangement includes a portion of power O&M capital investments, and Bonneville also plans to direct fund Bureau hydropower research expenses of benefit to the FCRPS. Direct funded capital costs, previously funded through appropriations, are now being paid through BPA borrowing from the Treasury. BPA's total O&M direct funding was \$214 million in FY 2004.

This FY 2006 budget proposes Bonneville accrued expenditures of \$2,977 million for operating expenses, \$147 million for Projects Funded in Advance, \$487 million for capital investments, and \$372 million for capital transfers in FY 2006. The budget has been prepared on the basis of Bonneville's major areas of activity, Power and Transmission. This business structure arose as a response to the 1992 Energy Policy Act and ensuing FERC Orders 888 and 889 requiring separation of utilities' power and transmission functions. As a Federal agency, Bonneville is not subject to FERC's jurisdiction, but chooses to voluntarily comply with the FERC orders. Further, Bonneville supports DOE's October 1995 "Power Marketing Administration Open Access Policy which states the Power Marketing Administrations' commitment to offer transmission services to eligible entities in a manner comparable to the services offered by FERC-jurisdictional transmission providers to the extent not otherwise inconsistent with federal law.

Spending levels in this budget are still subject to change to accommodate competitive dynamics in the region's energy markets, debt optimization strategies, and the continued restructuring of the electric industry.

- Bonneville's FY 2006 budget reflects the significant financial and business events that have shaped Bonneville's response to the physical and competitive pressures of the region's electricity situation. BPA is striving to enhance its competitive, cost-effective delivery of utility products and services and continued delivery of the public benefits of its operations, while ensuring its ability to make its payments to the Treasury on time and in full. BPA underwent a comprehensive strategic planning process using the Balance

Scorecard model to align all business units around specific goals and align resources to achieve these goals. In support of strengthening its strategic alignment, BPA is also seeking to achieve operational efficiencies through a stronger overall agency perspective while still complying with the FERC Standards of Conduct.

- The past several years have been particularly challenging for BPA responding to the 2000-2001 West Coast power crisis. Drought and the resulting poor hydrological conditions contributed to a significant decline in expected revenues and high market prices for power purchases required to meet load obligations created significant cost increases. Since then, continued below average hydrological conditions have put pressure on BPA's financial condition. BPA's priority has been to restore its financial health and look toward a stronger financial future. Aggressive cost reductions, debt optimization efforts, cost recovery rate adjustments, and improved market conditions have all contributed to help stabilize Bonneville's finances. BPA is continuing its efforts to assure full recovery of its costs by the end of the rate period in FY 2006 and to achieve long-term financial stability while meeting its overall responsibilities to the Pacific Northwest and the U.S. taxpayer.
- When BPA set power rates for the FY 2002-2006 rate period, it incorporated a series of cost recovery adjustment clauses (CRACs) into its rates structure to provide flexibility to make adjustments as needed to deal with costs or financial situations not anticipated when setting the base rate. Since then, BPA has instituted several actions to reduce costs, thereby keeping power rates as low as possible over the rate period.
- As reflected in this FY 2006 budget, about \$550 million in actual and forecasted program and internal operations expense reductions and revenue enhancements for the power function are being implemented over the FY 2003-2006 power rate period, compared to when rates were set. Of this amount, about \$100 million was identified by the Power Net Revenue Improvement Sounding Board, composed of customers and other regional stakeholders working with BPA. BPA is continuing its efforts to reduce costs and enhance revenues. Through its significant cost reductions and deferrals since the beginning of FY 2003, coupled with the implementation of the cost recovery rate adjustments, Bonneville has retained a high probability of making its Treasury payment throughout the remaining FYs 2005-2006 of the rate period.
- BPA, in September 2004, announced a wholesale power rate decrease of 7.5 percent for FY 2005 relative to FY 2004 rates. The rate decrease is the first since the West Coast energy crisis and Northwest drought of 2000-2001 drove rates up starting in FY 2002. The rate reduction is made possible by continued cost reductions and a positive outlook for surplus sales revenues. BPA initiated a public process in January 2005 called the Power Function Review (PFR) that will address power program levels for the FY 2007-2011 period. Results from this process will provide important direction for the initial rate proposal that takes affect FY 2006.
- BPA is engaging its customers, constituents and employees in discussions on the agency's power supply role through the Regional Dialogue public process. A key goal of this process is to gain clarity regarding BPA's load obligations and those of the region's utilities. As part of this process, BPA issued in July, 2004 a draft Regional Dialogue

Policy Proposal for Power Supply Role for FYs 2007-2011 for public review and comment. This draft policy is consistent with many of the recommendations included in a recent GAO report on BPA entitled “Better Management of BPA’s Obligation to Provide Power is Needed to Control Future Costs.” BPA is targeting to complete final policy decisions and a Record of Decision covering short-term issues in the Regional Dialogue in early 2005, followed by additional consideration of remaining long-term issues.

- For the transmission function, BPA established transmission and ancillary service rates for the FY 2004-2005 rate period, with the two-year timeframe designed to mitigate the risks related to an unstable marketplace and in part to support the transition toward formation of a Regional Transmission Organization (RTO). The Federal Energy Regulatory Commission (FERC) granted final approval of BPA’s proposed FY 2004-2005 transmission rates and tariffs on September 23, 2003. These rates are consistent with an earlier settlement agreement reached with most of BPA’s customers providing for a 1.5 percent increase for most transmission and ancillary service rates over the rate period.
- In anticipation of establishing transmission rates for the FY 2006-2007 period, BPA initiated Programs in Review (PIR), a public process with customers, constituents and others designed to share proposed transmission program funding levels. The PIR includes an overview of the Transmission Business Line’s (TBL) vision and objectives which include: providing open and nondiscriminatory transmission access, maintaining system reliability for an improving economy, providing low-cost transmission to the Northwest, increased accountability to customers and constituents, and heightened environmental consciousness.
- Results from the PIR process served as the basis for development of costs in BPA’s Initial Proposal for transmission rates that was included in a Settlement Agreement signed by BPA on January 11, 2005 and over 120 BPA customers and other parties. Terms of the agreement entail an overall 12.5 percent increase for the FY 2006-2007 rate period. The increase is driven primarily by a significant drop in TBL’s revenues combined with increased costs associated with completion of major infrastructure projects to improve system reliability. Under the Settlement Agreement, BPA commits to proposing in the 2006-2007 Transmission Rate Case the Initial Proposal reflected in the Settlement Agreement. BPA intends to start the formal transmission rate case with a Federal Register Notice expected to be published in February 2005.
- The TBL funding levels included in this FY 2006 budget are based on initial PIR funding estimates. The TBL is continuing to identify added efficiencies, defer work, and cut program costs to help keep transmission rates low.
- Bonneville is continuing efforts to help meet the region’s long-term power and transmission infrastructure needs. Bonneville is planning infrastructure investments in the Pacific Northwest to meet Northwest transmission needs that will also continue to support a competitive wholesale market in the Western Interconnection that encompasses 15 western States, two Canadian provinces and two Mexican States. As part of those efforts, BPA passed a major milestone in its infrastructure program when it energized the Kangley-Echo Lake 500-kilovolt transmission line in December 2003. Another critical component

of the program, the Celilo modernization project, was completed in April 2004, and will maintain the transmission line capacity of the 846-mile Pacific DC Intertie running from Los Angeles, California, to the northern Oregon border.

- Bonneville has identified a number of actions that it is taking or could take over the next several years to provide additional electric system infrastructure relief. These actions include federal hydro generation efficiencies and additions, additional renewable resource generation and conservation efforts, long- and short-term power purchases, and construction of transmission projects that reinforce the grid and integrate new generation. As part of these efforts, Bonneville has designed a process to review and prioritize the transmission investments. Part of this process, developed with stakeholder input, will provide investor owned utilities (IOUs) and public utilities an opportunity to evaluate proposed major transmission infrastructure additions for their cost, benefits, and their contribution to reliability, as well as schedules for project completions. Bonneville has moved this process to the Transmission Planning Committee of the Northwest Power Pool, which will provide a broader review of any proposed infrastructure project. Bonneville will also engage DOE and other regional stakeholders in discussions to clarify needed generation improvements and conservation.
- Bonneville received an additional \$700 million in available Treasury financing through the FY 2003 Appropriations Act to help assure a sufficient level of infrastructure planning. For efficient use of this newly available Treasury financing, BPA will encourage private-sector or other non-federal financing or joint financing of transmission line expansions and additions, develop a five-year investment plan with the participation of the regional Infrastructure Technical Review Committee or its successor in the region, continue to use funds only for authorized purposes, continue to include the proposed use of the funds in its annual budget submissions and select projects based on cost-effectiveness criteria for achieving the objective. The new law increases to \$4.45 billion the aggregate amount of bonds Bonneville is authorized to sell to the Treasury and have outstanding at any one time. Bonneville is pursuing other strategies to sustain funding for its infrastructure investment requirements as well. These additional strategies include optimization of Energy Northwest (ENW) debt, revenue financing of some amount of transmission investments, and seeking, when possible, third party financing sources. This FY 2006 budget includes \$15 million of revenue financing in FYs 2004 and 2005 for transmission infrastructure capital- projects funded in advance.
- Bonneville is continuing efforts to explore non-federal funding in its transmission infrastructure projects with transmission customers and others in the region. This effort has been designed to obtain as much interest as possible in cost effective and timely non-federal participation and financing of transmission infrastructure that can be operated and maintained integrally with the Federal grid. A set of principles for non-federal financial participation was developed by Bonneville and publicly announced in the Open Access Same-Time Information System (OASIS)/Federal Register postings in early 2002. That posting initiated a formal schedule for soliciting interest in non-federal participation. The schedule is sufficiently flexible to accommodate the level of interest expressed and the schedule of individual transmission projects. Furthermore, Bonneville assumes that transmission additions for the purpose of generation integration will go forward with funds

provided by generators up front, to be amortized through credits for transmission services as FERC has encouraged.

- Construction of the Schultz-Wautoma-500 kV transmission infrastructure project was financed in part through a lease-purchase agreement with Northwest Infrastructure Financing Corp., a subsidiary of JH Management. The Schultz-Wautoma project is one of the top projects in BPA's transmission infrastructure program and will add transmission capacity and greatly ease congestion on related transmission paths. The line will increase reliability, potentially reducing outages, while allowing approximately 600 megawatts of new capacity for power flowing in the North to South corridors.
- This FY 2006 budget includes capital and expense estimates for the PBL based on updated estimates from the 2005 Safety Net CRAC rate proposal. The outyear power estimates included in this budget serve as the basis for program levels included in the PFR public process initiated in January 2005. The TBL capital and expense estimates are based on initial TBL PIR funding estimates. Capital investment levels also reflect executive management decisions from BPA's cross-agency Business Operations Board review process, and external factors such as the significant changes affecting the West Coast power and transmission markets, along with planned infrastructure investments designed to address the long-term needs of the region. FY 2004 cost estimates are based on BPA's audited actual financial results.
- FYs 2005-2010 revenue estimates in this budget, included in the Net Outlay formulation, are calculated consistent with cash management goals and assume a combination of adjustments. Assumed adjustments include the use of a combination of tools; for example, upcoming CRAC adjustments, reduced cost estimates, a net revenue risk adjustment, debt service refinancing strategies, and/or short-term financial tools to manage net revenues and cash. FY 2004 revenue estimates are based on BPA's audited actual financial results.
- Revenue calculations include depreciation and 4(h)(10)(C) assumptions. These credits offset BPA's fish and wildlife program costs allocable to the non-power project purposes of the FCRPS, consistent with the Northwest Power Act. Credits for 4(h)(10)(C) included in this FY 2006 budget are \$83 million for FY 2004, and \$79 million for FYs 2005 and 2006. Net Outlay estimates are based on current cost savings to date and anticipated cash management goals. They are expected to follow anticipated management decisions throughout the rate period that, along with actual market conditions, will impact revenues and expenses.
- Bonneville is continuing to work closely with the region's IOUs, Bonneville's public agency customers and other stakeholders through a public collaborative process called the Regional Representatives Group (RRG) to further develop a grid management proposal that addresses the specific needs and opportunities of the Pacific Northwest. At the core of the proposal is a flexible business model providing for a staged, voluntary implementation process and a governance structure that provides for a set of checks and balances to ensure that the region has a hand in shaping how the entity serves the region's needs. A preliminary step has been taken by the restructuring of the earlier RTO West proposal into the Grid West proposal and adoption of the Grid West Developmental Bylaws.

- Estimates included in this FY 2006 budget anticipate a slight increase in near-term funding requirements that follows the adoption of the Grid West Developmental Bylaws. If BPA subsequently elects to fund its share of further developmental costs to be incurred by an independent Grid West board, BPA estimates costs for implementation of Grid West could range as high as \$10 million annually.
- Bonneville's efforts to keep its rates as low as possible are augmented by the implementation of the Bonneville Appropriations Refinancing Act (part of the Omnibus Consolidated Rescissions and Appropriations Act of 1996) that refinanced Bonneville's outstanding repayment obligations on appropriations. The legislation called for raising low interest rates on historic appropriations to current Treasury market rates and resetting the principal of unpaid FCRPS appropriations. As called for in the legislation, Bonneville submitted its calculations and interest rate assignments implementing the refinancing to the Treasury. The Treasury then approved the BPA submission in July 1997, thus finalizing the implementation of the Bonneville Appropriations Refinancing Act.
- Consistent with assumptions in its 2002 Supplemental Power Rate Proposal and this FY 2006 budget, Bonneville has reached a settlement of the Residential Exchange Program for regional utilities for the post-2001 period. Regional utilities were eligible to participate in the Residential Exchange Program beginning in 2001, except for the nine public agency utilities that previously executed settlement agreements for terms extending through June 30, 2011. To settle the Residential Exchange, IOU customers will receive 1,900 average MW (aMW) in power and financial benefits, at prices generally equivalent to the priority firm power rate, over the FY 2002-2006 rate period. In FY 2007, the total amount of settlement benefits changes to 2,200 aMW, which will be provided entirely as financial benefits consistent with new IOU contracts signed in May 2004. No settlement offer was made to Bonneville's preference customers or public agency utilities, because none had forecasted average system costs that were sufficiently high to qualify for Residential Exchange benefits. See the Operating Expenses- Power Business Line section for additional discussion of the settlement agreements.
- In April 2003, Bonneville entered into a settlement agreement with Enron Corporation (Enron) relating to its associated power sales and purchase agreements. This agreement followed Enron's filing for bankruptcy protection in December 2001, and was approved in advance by the Enron Bankruptcy Court, the U.S. District Court for the Southern District of New York, in March 2003. Under the settlement, a \$99 million payment to Enron was paid directly from the Treasury's judgment fund in June 2003. The agreement calls for Bonneville to fully reimburse the Treasury by the end of December 2006, for the judgment funds used plus interest. Consistent with a Memorandum of Understanding with the Treasury, Bonneville makes interest payments on the outstanding debt to the Treasury's "miscellaneous receipts" account.
- As part of its continuing competitive efforts, Bonneville is working to further optimize debt service costs (often referred to as debt optimization elsewhere in this budget). Bonneville has reached agreement with ENW to pursue refinancing of certain ENW bonds. Bonneville pays the debt service on these bonds under the terms of earlier net billing

agreements. A component of the refinancing strategy is to extend the final maturity on the Columbia Generating Station (formerly WNP-2) debt. In addition, for Projects 1 and 3, some debt currently maturing prior to FY 2012 is being extended into the 2013-2018 time period. Bonneville has committed to ENW to use the reductions in debt service resulting from this extension to amortize Federal debt earlier than currently scheduled, except in the case of an extreme financial emergency. Implementation of the refinancing components will be subject to favorable market conditions and interest rate environment.

- As part of its strategic staffing efforts and infrastructure project requirements, Bonneville has seen an increase in Full-Time Employee (FTE) levels since FY 2000. Due to cost management initiatives, BPA is currently assessing its FTE estimates and expects reductions in actual FTE levels that are planned to occur through attrition and as part of efforts to reduce costs to assure Bonneville's continued financial health. BPA is currently in the process of seeking authority to offer a voluntary separation incentive (VSI) and voluntary early retirement authority (VERA) in FY 2005. Annual Bonneville FTE projections included in this FY 2006 budget for FYs 2005 and 2006 are 3,166.
- Bonneville is committed to continue funding its share of the region's efforts to recover listed Columbia Basin fish and wildlife. In its 2002 Power Rate Proposal for FYs 2002-2006, Bonneville incorporated fish and wildlife funding principles that were developed and supported by a broad base of regional interests. Consistent with these principles, power rates were set to provide sufficient revenue to satisfy Bonneville's fish and wildlife responsibilities. Bonneville is working closely with the Council, regional fisheries managers, National Oceanic and Atmospheric Administration Fisheries Service (NOAA Fisheries), the USFWS, Corps, Bureau, and other Federal agencies to prioritize and manage fish and wildlife costs to remain within the funding estimates established in rates. Included with the budget schedules section of this budget document is the current tabulation of Bonneville's fish and wildlife costs from FY 1996 through 2003.
- To the extent possible, Bonneville is integrating its implementation of Endangered Species Act (ESA) actions with the Council's Fish and Wildlife Program. Many of the actions in the FCRPS Biological Opinions and the Council's Program overlap, particularly in the areas of habitat and hatchery offsite mitigation measures. The FCRPS Action Agencies' (Corps, Bureau, and Bonneville) Biological Opinion Implementation Plans describe an approach that maximizes the use of the Council's regional processes to identify and select projects that avoid jeopardizing the survival of the ESA-listed species and to protect, mitigate and enhance all fish and wildlife; both listed and non-listed affected by the operation of the FCRPS. The Council's Fish and Wildlife Program, provides the mechanism for integrating activities focused on ESA-listed fish in the NOAA Fisheries 2004 and USFWS 2000 Biological Opinions (FCRPS Biological Opinions) with those for non-listed species affected by the Columbia Basin's federal and non-federal hydrosystems).
- Bonneville and the other FCRPS Action Agencies will continue to prioritize funding for fish and wildlife projects, including biological opinion implementation, and will focus funding on cost-effective projects. General and specific criteria, including factors for

selecting projects focused on targeted stocks, will be further refined as Bonneville and the region gain experience with adaptive management.

- Bonneville is also relying on the Council's recently submitted Sub-basin Plans for the entire Columbia River Basin to further integrate needs identified through recovery planning with those of the Council's Fish and Wildlife Program and FCRPS Biological Opinion implementation. The plans will be developed in close coordination with NOAA Fisheries and the USFWS to ensure the integration and prioritization of ESA-focused project activities in the Council's Fish and Wildlife Program.
- The FY 1997 Energy and Water Development Appropriations Act added section 4(h)(10)(D) to the Northwest Power Act, directing the Council to appoint an Independent Scientific Review Panel "to review projects proposed to be funded through that portion of Bonneville Power Administration's fish and wildlife budget that implements the Council's fish and wildlife program." And, "... in making its recommendations to Bonneville, the Council shall consider the impact of ocean conditions on fish and wildlife populations; and shall determine whether the projects employ cost effective measures to achieve program objectives." Consequently, projects funded under Bonneville's direct program will be reviewed and prioritized as part of the Council initiative process.

President's Management Agenda

- In the area of the President's Management Agenda, Bonneville is leveraging the President's initiatives to achieve efficiencies while preserving the long-term value of the FCRPS. To ensure that Bonneville is able to fully leverage the initiatives, Bonneville has incorporated a matrix team approach utilizing the OMB and Office of Personnel Management (OPM) "Proud to Be" standards and is continuing to develop strategies to achieve greater efficiencies in Bonneville programs and operations. In 2004, BPA was rated "green" on its performance of each annual target associated with the DOE Energy General Goal.
- Bonneville is self-reporting its Current Status as "green" or successful on both the Financial Management and the Integrating Budget and Performance initiatives. Over the past several years, Bonneville has streamlined and integrated its strategic planning and budgeting processes, setting quantifiable outcome goals and targets, aligning its resource allocations in the context of past results, and implementing the Balanced Scorecard concept of performance management. As part of this year's budget development, BPA has initiated a "full-cycle financial management" process where the agency's strategic direction drives the development of performance targets that in turn are reflected in outyear budget estimates, BPA's long-term rate development process, and individual managerial performance contracts.

Bonneville has received a Clean Audit Opinion since the mid-1980s and has no material financial weaknesses reported on its financial statements. Bonneville planning and budgeting processes include extensive Bonneville stakeholder involvement, including customers, constituents, tribal and other interested parties in the region. Bonneville's financial management systems and reporting procedures meet Federal standards, comply

with Generally Accepted Accounting Principles (GAAP), and are consistent with Presidential Initiative schedule guidance.

Bonneville, along with the Corps and Bureau, has developed an asset management strategy to improve the performance and efficiency of FCRPS assets. This strategy evolved into a comprehensive integrated business management model, which dovetails with the President's Budget and Performance initiative. While each agency has its own distinct identity and mission, much greater effort is being made to plan and manage the system collectively and to share strategic objectives. The process involves a continuous loop that integrates planning and resource management with results, while helping to instill greater cooperation among the FCRPS agencies.

- In the area of Expanding E-Government, Bonneville is self-reporting its Current Status as “green” and its Progress Toward Implementing the President’s Management Agenda as “green.” In an effort to close the gap in the standard of IT (Information Technology) program management (90 percent of IT projects completed on time and on budget), Bonneville has also completed an IT Leading Change effort (IT Process Re-engineering Study) and is now implementing a standard IT project management approach, increased rigor for approving and funding IT projects, as well as enhanced IT documentation and reporting processes. Bonneville exceeds OMB standards for IT business case preparation and for providing web access that improves citizen access by offering one-stop shopping through integrated delivery methods, while reducing undue burden on our business partners and customers by reducing or eliminating the need to re-key data. Bonneville has developed an Enterprise Resource Planning system that integrates its major business process, providing its managers and employees with access to timely and accurate financial, personnel, and property reports. In a move to further reduce operations cost, Bonneville has consolidated its business and administrative IT groups.
- Bonneville is self-reporting “green” in Current Status and “green” in Progress Toward Implementing the President’s Management Agenda in the area of Human Capital. This initiative has served as a catalyst in redefining BPA’s organizational strategy, in developing and getting alignment with meaningful objectives, and in assigning clear accountabilities. A Workforce Plan, completed in early 2004, sets forth BPA’s strategy for achieving these goals. The Human Capital Initiative also underscores BPA’s efforts toward creating a culture and workforce capability that ensure its ability to successfully achieve its mission. Through its Performance Management systems, as an example, Bonneville aligned Agency Strategic Business Objectives with quantifiable targets that are embedded in individual executive and managerial performance contracts. Development of a new Human Resource Management Information System tool that will support organizational development plans focused on closing mission critical skills gaps is underway as well.

In support of these efforts, BPA is also beginning implementation of its “position management” initiative that will evaluate the structuring of positions, functions, and organizations in a manner that optimizes productivity, efficiency, and organizational effectiveness. Strong position management will help ensure the efficient distribution of staff resources and help in identifying, preventing, and eliminating unnecessary

organizational fragmentation. Implementation of this long-term program will utilize position management targets.

Overview of Detailed Justifications

Bonneville's Detailed Justification Summaries, included in this FY 2006 budget, follow present budget requirements for budget line items on the basis of accrued expenditures. Accrued expenditure is the basis of presenting Bonneville's program funding levels in the power and transmission rate making processes, and the basis upon which Bonneville managers control their resources to provide products and services. Accrued expenditures relate period costs to period performance. Traditional budget obligation requirements for Bonneville's budget are shown on the Program and Financing Summary Schedule prepared in accord with OMB Circular A-11.

The organization of BPA's FY 2006 budget and these performance summaries reflect Bonneville's business line basis for utility enterprise activities. Bonneville's major areas of activity on a consolidated budget and accounting basis include Power and Transmission with administrative costs included. The PBL includes line items for Fish and Wildlife, Conservation and Energy Efficiency, Residential Exchange, Associated Projects O&M Costs, and Council. Environmental activities are shown in the relevant business line, and in accord with OMB Circular A-11 guidance for revolving funds, reimbursable costs are incorporated within the associated business lines. All programs funded in advance are assumed to be fully funded by benefiting entities. Bonneville's interest expenses, pension and post-retirement benefits, and capital transfers to the Treasury are shown by program.

The first section of performance summaries, Capital Investments, includes accrued expenditures for investments in electric utility and general plant associated with the FCRPS generation and transmission services, conservation and energy efficiency services, fish and wildlife, and capital equipment. These capital investments will require budget obligations and use of existing borrowing authority of \$487 million in FY 2006.

The near-term forecasted capital funding levels have undergone an extensive internal review as a result of BPA's capital budgeting process and its associated capital asset management strategy. These capital reviews encompass project cost management initiatives, capital investment assessments, and prioritization of capital projects to be funded based on risk and other factors. Consistent with BPA's near-term capital funding review process, this FY 2006 budget includes updated capital funding levels for FY 2005. Utilizing this review process helps Bonneville in its efforts to compete in the deregulated energy market. Bonneville will continue to work with the Corps and the Bureau to optimize the best mix of projects.

In addition to its extensive internal management assessment of capital investments, Bonneville has developed and is implementing an associated external capital investment review process that provides significant benefits to Bonneville. The combined internal and external processes add value by both improving direction on what the FCRPS invests in (tying investments more closely to agency strategy) and by improving how those investments are made (better analysis and review of capital investments and their alternatives). BPA will continue its efforts to refine and further implement its capital investment review process to improve the value provided.

Bonneville's second section of the performance summaries, entitled Annual Operating Expenses, includes accrued expenditures for business line and program activities financed by power sales revenues and transmission services revenues and projects funded in advance. For FY 2006, budget expense obligations are estimated at \$2,977 million. The total program requirements of all Bonneville programs include estimated budget obligations of \$3,611 million in FY 2006.